

## **VII. CONTRIBUTIONS FOR GOVERNMENT SOCIAL INSURANCE**

Contributions for government social insurance consists of employer contributions for government social insurance and employee and self-employed contributions for government social insurance (formerly called personal contributions for social insurance). It is deducted in the calculation of personal income.

Contributions for government social insurance account for 11 percent of earnings by place of work (table G). Employer contributions for government social insurance is 49 percent of the total in 2005, while employee and self-employed contributions for government social insurance makes up the other 51 percent.

### **Employer Contributions for Government Social Insurance**

Employer contributions for government social insurance account for 5.4 percent of earnings by place of work (table G). These contributions are also a component of supplements to wages and salaries. A complete description of these contributions and the methodology used to estimate them are presented in Chapter III Supplements to Wages and Salaries.

### **Employee and Self-employed Contributions for Government Social Insurance**

Employee and self-employed contributions for social insurance consists of the payments by employees, by the self-employed, and by other individuals who participate in the following programs: Old-age, Survivors, and Disability Insurance (OASDI, or social security); Hospital Insurance (HI) and Supplementary Medical Insurance (Medicare); railroad retirement; state unemployment insurance; temporary disability insurance; and veterans' life insurance. These contributions accounted for about 5.6 percent of earnings by place of work at the national level in 2005 (table G).

Contributions of employees—like their income taxes on wages and salaries—are withheld by their employers from their paychecks. The self-employed, on the other hand, pay their contributions with their quarterly payments of estimated Federal individual income taxes or annually with their federal income tax returns.

### **Contributions for OASDI and HI**

Contributions for OASDI and HI consist of payments by employees and of payments by the self-employed.

**Contributions by employees.**—These contributions are made by employees in the private sector and by the employees of Federal, state, and local governments who are covered by the OASDI and HI programs.

Most of these employees are covered by both the OASDI and HI programs. However, Federal employees who are covered by the Civil Service Retirement System

and employees of the railroad industry are covered by the HI program but not by the OASDI program.

National estimates of these contributions are based on data from the Social Security Administration and are allocated to states in proportion to wage and salary disbursements. The state estimates are prepared separately for private sector employees, Federal civilian employees, state and local government employees, and military personnel.

State estimates of contributions by private sector employees and by Federal civilian employees are each prepared in proportion to state estimates of wage and salary disbursements for these employees.<sup>1</sup> State estimates of contributions by military personnel are prepared in proportion to state estimates of military wage and salary disbursements excluding pay-in-kind.

State estimates of contributions to OASDI and HI by state and local government employees are based on state estimates for 1987, as reported in the 1987 Census of Government.<sup>2</sup> The 1987 state estimates were extrapolated to forward by estimates of state and local government wage and salary disbursements adjusted to reflect coverage rates under OASDI and HI for state and local government employees in each particular state. These coverage rates were provided by the Social Security Administration.

**Contributions by the self-employed.**—All self-employed persons whose annual self-employment income exceeds \$400 are covered by, and are required to contribute to, the OASDI and HI programs. State estimates of these contributions are based on a 1-percent sample published in the Social Security Administration's *Social Security Bulletin Annual Statistical Supplement*.<sup>3</sup>

## **Contributions by employees for other social insurance programs**

**Contributions for railroad employee retirement insurance.**—National and state estimates of employee contributions for this federally administered program are based on the wages and salaries that are subject to the contributions. The data used for the state estimates are reported by the Railroad Retirement Board (RRB) on a place-of-residence basis and are converted by BEA to a place-of-work basis using journey-to-work data from the 2000 Census of Population.<sup>4</sup>

**Contributions for state unemployment insurance and for temporary disability insurance.**—Contributions for state unemployment insurance consist of payments by employees in Alabama (1969-70 and 1975-85), Alaska, New Jersey, and

---

<sup>1</sup> Before the 1996 comprehensive revisions, these estimates were based on direct sample data provided by the Social Security Administration (SSA). However, SSA discontinued this series because it had become unreliable.

<sup>2</sup> The data reported in the census are employer contributions. They are assumed to be identical to the employee contributions because the contribution rates for these programs are identical for employers and employees.

<sup>3</sup> Because state data are not available until several years after the end of the reference year, the estimates are extrapolated by the change in the state estimates of nonfarm proprietors' income.

<sup>4</sup> This 'reverse residence adjustment' is necessary because employee and self-employed contributions for government social insurance is by definition on a place of work basis (like wage and salary disbursements). The conversion of place of work components of income to a place of residence basis is discussed below in Chapter VIII Residence Adjustment.

Pennsylvania (1984-88 and 1992-1996). National and state estimates of these contributions are based on unpublished data from the states.

Contributions for temporary disability insurance are the payments by employees to such insurance programs in California, New Jersey, and Rhode Island. National and state estimates of these contributions are based on data from the Census Bureau's annual *State Government Finances* and from the *California Disability Insurance Fund Report*.

### **Contributions for Supplementary Medical Insurance and for veterans' life insurance**

**Contributions for Supplementary Medical Insurance.**—These contributions are the premiums that are paid by individuals who are enrolled in Medicare's voluntary Supplementary Medical Insurance program (Medicare Part B). The national estimate of these contributions is based on data from the *Monthly Treasury Statement*. The national estimate is allocated to states in proportion to the number of individuals who are enrolled in the program and whose premiums are not paid by state governments. The enrollment data are provided by the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration.

**Contributions for veterans' life insurance.**—These contributions are the premiums that are paid by veterans for life insurance under the five life insurance programs administered by the Department of Veterans Affairs (DVA). The national estimate of these contributions is based on unpublished data provided by DVA. Premium data by state from DVA's *Government Life Insurance Programs for Veterans and Members of the Services, Annual Report* are used to allocate the national estimate.